Housing Authority - County of Los Angeles

April 2, 2007

To: Each Supervisor

From: Carlos Jackson, Executive Director

SUBJECT: SECTION 8 MANAGEMENT STRATEGY

On March 27, 2007, your Board requested that I report back on the management strategy that I am using to address the current issues in the Section 8 program. As part of my discussion, I will reference the attached Section 8 status report previously submitted to your Board on February 27, 2007. This report (Report) provided you with the overall approach that I implemented in order to remove the Section 8 program from its Troubled status.

Before proceeding with the discussion of my management strategy, it is important that I inform you of a new funding scenario that has recently developed. I previously reported that as a result of a newly enacted funding formula, which now bases funding on expenditures related to lease-up, and the uncertainty of using our program reserves, we projected funding to support a program of 18,000 – 19,000 vouchers. Recent legislative activity and further funding clarification have led me to believe that I can now confidently report that we can use the Housing Assistance Payment (HAP – payment to landlord) reserves to maintain our current voucher level at 20,550. More details on this matter will be discussed in a later section of this memorandum.

Since July 2006, when I determined that there were critical weaknesses in our Section 8 program, I have been implementing a strategy that would enable us to create positive, yet long-term improvements within our program. This improvement strategy focused on three principal priorities:

1. directing program activities to establish the Section 8 program as a Standard Performer by June 30, 2007;
2. implementing management improvements that should sustain the program on a long-term basis at an acceptable performance level; and
3. managing the program' s annual funds.

In addition, on March 28, 2007 I submitted, as required, the report to Supervisor Knabe's motion of February 27th, in which I recommended two new actions to support our ongoing lease-up efforts.

The recommendations outlined in my response to Supervisor Knabe's motion and answers to questions raised by the Board are summarized below.

DIRECTING PROGRAM ACTIVITIES

I indicated in my original Report that in order to re-establish the Section 8 program as a Standard Performer, it would be crucial to address the administrative deficiencies by developing both short- and long-term management improvements. I further indicated that the positive consequences of such efforts would remove our program from its Troubled status. Included within the Report was also a discussion concerning our possible funding reduction and the impact of the reduction on our voucher levels; from 20,550 to approximately 18,000–19,000.

There were three performance areas identified by HUD as requiring immediate improvement in order for us to receive a favorable rating by HUD by July 1, 2007. The three areas were: annual inspections, annual re-examinations, and lease-up.

Annual Inspections

As I have noted in past correspondence to you, at the end of last fiscal year, June 30, 2006, the program had a 34% delinquency rate in its annual inspections. That percentage has been drastically reduced to 8% as of March 1st, a rate now acceptable by HUD standard. Annual inspections are now completed two months in advance of the effective date as a result of newly established policies and procedures.

Annual Re-examinations

In reference to delinquent annual re-examinations, we had a backlog of 4,700 delinquent re-examinations as of October 2006. By March 30, 2007, that figure had been significantly reduced to 1,297. We are on target to eliminate the delinquent backlog by the end of April 2007. In addition, we are pacing towards completing at least 96% of all current re-examinations by June 30, 2007. We should receive the maximum points from HUD in this category.

Lease-Up

The lease-up effort has been a major challenge. As noted in the Report, we had an insufficient application pipeline last year to reach a mid-90% lease-up rate. Although we are currently leased-up to 86%, our aggressive efforts have reestablished a vital pipeline to increase lease-up. Our current activities have produced the following:

- A total of 2,828 new contracts since July 1, 2006. Since September of last year, which was the starting point of our aggressive efforts to increase the application pool, we have averaged 313 new contracts per month, for a total of 2507. For July and August 2006 our monthly average was 160.
- An additional 1,640 voucher holders who have found housing and are awaiting their housing assistance contracts to be finalized.
- 3,188 voucher holders who are looking for affordable rental units.
- Approximately 4,600 applicants who are in the final stages of being issued a voucher.

As previously noted, our increased lease-up activities have produced a very healthy participant pool. However, the lease-up has been adversely impacted by program terminations. A total of 3,122 terminations have occurred since July 2006, for an average of 312 per month. This average exceeds our lease-up rate for the past ten months of 282 per month. The terminations have increased, in part, due to the implementation of the Enterprise Income Verification (EIV), as required by HUD. The general purpose of the EIV is to reduce fraud because of unreported income of participants.

IMPLEMENTING MANAGEMENT IMPROVEMENTS

The long-term management improvements discussed in the Report have been implemented. We had determined in early Spring 2006 that a major administrative reorganization was necessary in order to improve our program performance. These improvements had to demonstrate a greater responsiveness to Section 8 applicants, participants and landlords. Furthermore, the matter of having quality data to administer the program was critical. New concepts and business practices were implemented with a long-term perspective. In the last few months, we have established the following improvements: new operational policies and procedures to increase our effectiveness and efficiency; ongoing staff training; re-engineering of our business practices; and we are in the final procurement phase of acquiring a new software program for the Section 8 program. Our current system, which was purchased in 1995, is lacking the capacity to serve the current program demands.

MANAGING ANNUAL FUNDING

As I mentioned in my opening comments, effectively managing the program's funding is the third element of the management strategy. All efforts have been made to secure sufficient funding to maintain our Section 8 program at its current level.

I reported to you that the potential financial impact, due to the new funding formula and under-performance in lease-up, was projected at a loss of $33 million in landlord payment. As a result of this decrease, we projected a new funding level that could support 18,000 to 19,000 vouchers. This funding scenario was predicated on informal guidance provided by HUD which discouraged the use of our HAP reserves to augment the reduction in our budget authority.

On March 29, 2007, I met with the principal consultant who was instrumental in drafting the current federal legislation that established the new Section 8 funding formula. As a result of that meeting, I am now more optimistic in our ability to use the reserves to fund our ongoing efforts to improve lease-up to 98% by December 2007, such that we will not be forced to reduce the voucher level as we had previously projected.

Based upon this new information, I believe that should we decide not to proceed in this direction, we could jeopardize our ability to re-establish the lease-up momentum should funding for calendar 2008 be based on spending actuals for 2007. Our current HAP reserves of $51 million are sufficient to cover landlord payments at the current voucher level of 20,550. We estimate that based on the current lease-up activities, we should achieve a 98% rate by December 2007. Approximately $11 million is required from the HAP reserves to support a program of 20,550 vouchers.

My viewpoint on using a portion of the reserves is further supported by the introduction of a bipartisan bill that will base 2008 Section 8 funding on actual expenditures for calendar year 2007. HR 1851, Section 8 Voucher Reform Act (SERVA), was introduced on March 29, 2007 by Congresswoman Maxine Waters, Chair, Subcommittee on Housing and Community Opportunity.

Supervisor Knabe's Motion (February 27, 2007)

In my March 27, 2007 response to Supervisor Knabe's motion, I made two recommendations that would assist our lease-up efforts. The first was the use of housing services to assist voucher holders in finding housing. As I noted above, the number of voucher holders who are searching continues to increase. Therefore, this one-on-one service would benefit those who are having difficulty in finding rental housing.

The second recommendation was in reference to Socialserve.com. The CAO, which has informed the Board under separate cover, is expecting the contract amendment to accelerate the work related to the Section 8 program. It is anticipated that the service will be available approximately one month after the amendment is approved.

Potential Program Modifications

Pursuant to your Board's direction, I examined various areas in which we have the authority to modify existing policies to determine if we could increase participant participation by changing the policies. Since the Section 8 program is participant-income driven, the three areas in which we have flexibility and authority to set policies are in payment standards, set-asides and occupancy.
Payment Standard: The Fair Market Rents (FMRs) are determined and published by HUD. HUD allows the payment standard to range between 90% - 110% of the FMRs. The Housing Authority has the flexibility to set the payment standard based on the FMR. The current payment standard used is set at 110%. For discussion purposes, this standard establishes the maximum rent level for each bedroom size and is used to determine the subsidy level for each participant. For example, the current FMR for a 1-bedroom unit is $1016. Based on the current payment standard of 110%, the allowable rent for a one bedroom unit cannot exceed $1117. We specifically set the payment standard at this level in order for voucher holders to be more competitive and successful in finding a landlord willing to accept a Section 8 contract. I would not recommend that this standard be reduced. It would disadvantage the participants in finding housing and discourage landlords from renting their units.

Set-asides: A total of 560 vouchers have been previously approved and set-aside to assist special needs populations to secure housing. The Agency Plan that is currently before the Board is seeking approval to set-aside 50 additional vouchers for homeless veterans. Our set-asides provide vouchers to the following:

- homeless families and individuals (210)
- DCFS Family Unification Program (250)
- DHS Access to Housing for Health patients who are homeless and need housing (50)
- DPSS CalWorks Families Project (50)

I recommend that we continue these efforts to support the various special needs housing and homeless initiatives that have been pursued by the County.

Occupancy Standards: Under the regulations, there are two standards allowed:

1. Two persons per bedroom, including the living room as a bedroom.
2. Two persons per bedroom, but head of household is permitted a separate bedroom .

We have adopted Option 1 (two persons per bedroom) as a current policy. This policy is more restrictive but enables us to maximize our funding resources in the issuance of vouchers. I recommend that we continue with the existing policy.

Limiting the Issuance of Vouchers by Bedroom Size

Also, at last week's Board meeting, an inquiry was made regarding the possibility of establishing a policy that would set a limit on the issuance of Section 8 vouchers by bedroom size. It was my understanding that the purpose for such a policy was to assist more individuals since larger units required more subsidy. Prior to 1998, HUD allocated Section 8 certificates (now called vouchers) to Housing Authorities by bedroom size. The current law and regulations specify that individuals and families shall be assisted based on income and family size. This change occurred because, in the past, large families that warranted Section 8 certificates for 4 bedrooms or larger waited an enormous amount of time for assistance. The annual allocation of such certificates to assist large families was generally a small number.

For your information, approximately 80% of all vouchers under contract are for units with between 1 and 3 bedrooms. Therefore, federal legislation would be required to amend the existing law to grant local agencies the authority to limit the utilization of vouchers by bedroom size.

Our overall strategy has been successful in moving the Section 8 program in a positive direction. The progress made thus far is reflected by the positive outputs in the areas that had the greatest deficiencies – inspections and re-examinations. The ongoing lease-up efforts should increase the utilization rate as well. We have increased our chances to be rated favorable at the next review period.

CJ:sm
Attachments: February 27, 2007 Section 8 Status Report
March 27, 2007 – Response to Supervisor Knabe's Motion

c: Each Deputy
David E. Janssen, CAO